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Allan G. Andrews, C.A.
Metropolitan Auditor

TORONTO TRANSIT COMMISSION

Report on the audit of the books and accounts
for the year ended

December 31, 1983

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

April 3, 1984

**The Chairman and Members of the
Toronto Transit Commission**

I have examined the 1983 financial statements of the Toronto Transit Commission, copies of which, together with my related opinion, are attached at the end of this report.

The comments of this report are intended to give the members of the Commission some greater detail on the fiscal operations than contained in the financial statements. Since the Commission is a local board of the Municipality of Metropolitan Toronto and because the Municipality gives substantial funding to the Commission, the comments are also framed to give members of the Metropolitan Council an independent overview of the financial operations of the Commission.

The Commission, since its inception January 1, 1954, has continued the practice of its immediate predecessor, the Toronto Transportation Commission, in appointing a firm of chartered accountants, Price Waterhouse, to audit its accounts and those of Gray Coach Lines, Limited, a wholly owned subsidiary. My audit, which is required by the provisions of Section 22(1) of the Municipality of Metropolitan Act, has for 1983 been co-ordinated with that of Price Waterhouse. The year-end phase of the audit was jointly planned and executed. Specific audit areas were allocated to each audit team, but all working papers were reviewed by both parties. This has enabled both Price Waterhouse and myself to rely on the work performed by the other to the extent appropriate, considering that each of us must issue an independent audit opinion.

This approach has been successful and it is expected to continue in the future. It is also the intention to rotate primary responsibilities for each audit area on an annual basis.

BACKGROUND INFORMATION

The Commission has exclusive authority to provide local passenger transportation services within the Metropolitan Area, the only exceptions being railways, taxis, horse-drawn vehicles used for the purpose of providing sightseeing tours, privately owned or operated buses in certain limited uses, the Island ferries and bus transportation on the Toronto Islands.

The Commission is empowered, under Section 108 of the Municipality of Metropolitan Toronto Act, to enter into an agreement to operate a local passenger transportation service with any person, with one or more area municipalities or with one or more other municipalities situated within twenty-five miles of the Metropolitan Area, provided that the Commission is not responsible for any deficit and provided that any surplus is credited to the municipality or municipalities concerned. As far as I am aware, the only such agreements effective at the end of 1983 were with the Town of Vaughan, the Town of Markham, and the Town of Malton and I comment further on these on page 33.

Section 115 of the Act provides that, so long as any lands and easements owned by the Metropolitan Corporation or by the Commission are used by the Commission for the purpose of a subway or other rapid transit or as car yards or shops for or in connection with such subway or rapid transit, such lands and easements and buildings and structures thereon so owned and used are exempt from business and property taxes, and the Commission is not liable for payments in lieu thereof. This exemption does not apply to concessions operated, rented or leased in subway or rapid transit stations.

The Commission is administered by five Commissioners, each of whom must be a resident of an area municipality, and whose appointment and remuneration must be authorized by by-law of the Metropolitan Council. The Metropolitan Council, by by-law 1924, approved the term of the five Commissioners on a staggered three-year basis.

The Commission owns the issued stock of Gray Coach Lines, Limited, a company which provides a variety of city and inter-urban services separate from, but complementary to the operations of the Commission. The operations of Gray Coach Lines, Limited are not consolidated with those of the Commission and I have issued a separate report on their 1983 operations.

OPERATIONS FOR 1983

Expenditures for the year were $362,789,000, while revenues amounted to $259,349,000, resulting in a net cost of operations of $103,440,000 prior to the operating subsidy payable by the Metropolitan Corporation (see page 16). This reflects an increase of $10,499,000 over 1982 and is $1,949,000 less than the budgeted deficit of $105,389,000 approved by the Metropolitan Council.

The statement below sets out a summary of actual and budgeted operations for the year.

	Budget	Actual	Variance	
		(in thousands)		%
Revenue:				
Passenger services	$251,557	$248,803	$ 2,754	1.1
Rental of land, air rights, buildings, subway concessions and equipment	4,852	4,718	134	2.8
Rental of advertising space	4,300	3,681	619	14.4
Other revenues	2,040	2,147	(107)	(5.2)
	262,749	259,349	3,400	1.3
Expenses:				
Wages, salaries and other employee costs	279,546	279,485	(61)	-
Materials, services and supplies other than the items shown below	38,149	34,571	(3,578)	(9.4)
Electric traction power	14,300	14,034	(266)	(1.9)
Automotive fuel	19,946	18,257	(1,689)	(8.5)
Municipal taxes and vehicle and other licences	3,959	3,898	(61)	(1.5)
Public liability costs	3,647	3,924	277	7.6
Depreciation	7,577	7,604	27	0.4
Debenture interest	1,014	1,016	2	0.2
	368,138	362,789	(5,349)	(1.5)
Excess of expenses over revenue	$105,389	$103,440	$(1,949)	(1.8)
Ridership	407,000	405,746	1,254	0.3

A comparative statement of revenue and expenses showing the changes between 1983 and 1982 is set out below:

	1983	1982	Variance	
		(in thousands)		%
Revenue:				
Passenger services	$ 248,803	$ 230,794	$ (18,009)	(7.8)
Rental of land, air rights, buildings, subway concessions and equipment	4,718	4,347	(371)	8.5
Rental of advertising space	3,681	3,689	8	0.2
Dividend from Gray Coach Lines, Limited	700	600	(100)	(16.7)
Profit on sale of land		30	30	100.0
Miscellaneous	1,447	1,438	(9)	(0.6)
	259,349	240,898	(18,451)	(7.7)
Expenses:				
Wages, salaries and other employee costs	279,485	254,724	24,761	9.7
Materials, services and supplies other than the items shown below	34,571	32,395	2,176	6.7
Electric traction power	14,034	13,656	378	2.8
Automotive fuel	18,257	17,879	378	2.1
Vehicle and other licences	528	556	(28)	(5.0)
Municipal taxes	3,370	2,865	505	17.6
Public liability costs	3,924	3,433	491	14.3
Depreciation	7,604	7,008	596	8.5
Debenture interest	1,016	1,323	(307)	(23.2)
	362,789	333,839	28,950	8.7
Excess expenses over revenue	$ 103,440	$ 92,941	$ 10,499	11.3
Ridership	405,746	401,150	4,596	1.1

Compared to the previous year, total revenues increased by $18,451,000 or 7.7%. Passenger revenue, the major operating revenue source, increased by $18,009,000 or 7.8%.

On the other hand, expenses increased by $28,950,000 or 8.7% primarily due to increases in labour costs of $24,761,000 (9.7%) which reflects the impact of labour contracts entered into prior to the imposition of Provincial restraint legislation and higher material, power, fuel and public liability costs of $4,189,000 (5.3%).

REVENUE

Passenger Services - $248,803,000 (1982 - $230,794,000)

The number of passengers carried increased by 4,596,000 from the previous year, to a total of 405,746,000. This surpassed the previous peak of 401,150,000 in 1982. The increase in ridership and the full year's effect of the January 1983 fare increase contributed to an increase in passenger revenue in excess of $18 million.

The Metropolitan Corporation makes grants for specific purposes which are included in the passenger service revenues. These are for the following:

	1983	(in thousands)	1982
Free transportation for the blind and war amputees	$ 560		$ 525
Reduced fares for the elderly	8,796		8,330
	$ 9,356		$ 8,855

Also included in passenger service revenues is $1,649,000 for the use of streetcars and buses for chartered and special services.

At the end of 1983, the fare structure within Metropolitan Toronto was as follows:

	Cash	Tickets
Adults	85¢	6/$4.00
Senior citizens		6/$2.00
Children	30¢	7/$1.50
Students	45¢	6/$2.00
Family plan (Sundays and holidays only)	$2.50	
Metropass (Monthly)	$34.75	

Rental of land, air rights, buildings, subway concessions and equipment

The following table sets out the comparative details for the two years:

	1983	1982
	(in thousands)	
Rental of equipment:		
Trucks and mobile equipment (mainly internal charges to Job Orders or subway construction)	$ 33	$ 57
Bus rental to Gray Coach Lines, Limited	61	40
Bus rental to Metropolitan Toronto for Island service	3	3
Bus rental - miscellaneous		23
Rental of loop facilities and bus platform to Mississauga Transit	117	98
Charged to Gray Coach Lines, Limited, for its share of fixed charges of carrying capitalized bus spare parts	1	2
Recovery of indirect expenses less share of vehicle advertising revenue re operating:		
T.A.T.O.A. Malton bus service	331	321
Vaughan bus service	298	323
Markham bus service	113	115
Rental of Commission-owned land and structures including concessions	2,385	2,356
Portion of rental charged to the Engineering and Construction Branch for space allotted to their personnel	120	173
Charges to Gray Coach Lines, Limited for its proportionate share of the costs of facilities used jointly by the Company and the Commission	78	86
Commissions from pay telephones	137	144
Net revenue from parking lots	1,041	606
Total	$ 4,718	$ 4,34[illegible]

The rentals charged to the Engineering and Construction Branch are apart from and in addition to the negotiated charge for administrative costs.

The increase in net revenue from parking lots of $435,000 was due to an increase in parking rates on January 3, 1983 and the addition of 4,498 new parking spaces at various times in 1983. The increased spaces resulted from the opening of the new Yorkdale parking lot and the assumption of control of the Islington, Keele, Victoria Park and Warden Avenue parking lots from the City of Toronto. The Commission also assumed operation of the Eglinton West parking lot which was previously operated by Metro.

Rental of advertising space - $3,681,000 (1982 - $3,689,000)

This amount includes $37,000 charged to Gray Coach Lines, Limited, for advertising space on Commission vehicles.

Dividend from Gray Coach Lines, Limited - $700,000 (1982 - $600,000)

In January 1983, a dividend of $700,000 was received from Gray Coach Lines, Limited. A further dividend of $700,000 not reflected in 1983 operations was received in January of 1984. It is the policy of the Commission to record dividends in its accounts on a cash basis.

Miscellaneous

Details of Miscellaneous revenue are as follows:

	1983	1982
	(in thousands)	
Interest on bank deposits	$ 205	$ 201
Administration and overhead costs recovered	455	429
Recovery from third parties	138	378
Gasoline tax refund	19	20
C.N.E. special transit plan	87	75
Sale of lost articles, unclaimed cash and profit on sale of scrap	64	7
Sale of student cards	323	231
Sundry	156	97
	$ 1,447	$ 1,438

Administration and overhead costs recovered is the allocation of such costs to the Engineering and Construction branch and ultimately recovered in the form of capital subsidies.

Recovery from third parties represents construction and repair costs recovered from Metropolitan departments, boards, agencies and others.

EXPENSES

Wages, salaries and other employee costs - $279,485,000 (1982 - $254,724,000)

The average number of staff employed by the Commission increased about 2.4% from 8,478 in 1982 to 8,685 in 1983. The additional costs of $24,761,000, which represents a 9.7% increase over 1982, resulted primarily from the wage increases provided for under the terms of a two year contract signed in July 1981 with the Commission's unions. Although the Commission was subject to Provincial restraint legislation, the impact of this restraint was not experienced until July 1983 when existing contracts expired.

Included in this classification are labour fringe benefits which consist of the Commission's contributions as follows:

	1983	1982
	(in thousands)	
Regular, special and supplemental contributions to the Pension Fund Society	$18,034	$16,454
Canada Pension Plan	2,908	2,573
Direct administrative costs for the Pension Fund Society	23	26
Sick benefits to the Sick Benefit Association	4,403	3,854
Ontario Hospital Insurance Plan	5,612	4,954
Direct administrative costs of the Sick Benefit Association	3	6
Additional sick benefits (including semi-private coverage) to Cumba Co-operative Health Services	1,929	1,533
Long Term Disability Insurance	369	334
Group Life Insurance	476	459
Unemployment Insurance	5,363	3,275
Workers' Compensation	1,097	1,070
Disability Benefits		2
Dental Plan	3,312	2,916
	43,529	37,456
Less Recoveries from:		
Gray Coach Lines, Limited	3,824	3,338
Engineering and Construction Branch	1,236	773
Major Repairs and Capital Works	437	481
Wheel-Trans	102	24
Others	10	
	5,609	4,616
Net cost to T.T.C.	$37,920	$32,840

Materials, services and supplies, etc.

This amount represents the balance of the operating costs not specifically allocated to other classifications. The increase of $2,176,000 over 1982 is chiefly a result of higher material costs in the Plant and Equipment Departments.

Included are all costs of materials and services not provided by employees to operate and maintain the Commission's transit vehicles, but excluding fuel and power which are shown separately on the financial statements.

The cost is made up as follows:

	1983	1982
	(in thousands)	
Plant Department, including power section operation and maintenance of sub-stations	$ 9,941	$ 8,845
Equipment Department expenses	14,054	13,896
Transportation Department expenses (mainly uniforms)	1,579	1,231
Insurance other than passenger vehicle liability, safety and claims sections expenses	644	585
Administrative expenses	5,379	4,894
Major repairs	1,692	1,819
Rents and financial expenses	103	102
Commissions paid to ticket agents	433	382
Other	746	641
	$34,571	$32,395

Electric traction power - $14,034,000 (1982 - $13,656,000)

The 2.8% increase is mainly due to increased rates for electric power consumed in 1983.

Automotive fuel - $18,257,000 (1982 - $17,879,000)

The 2.1% increase is mainly the result of an increase in the average cost of fuel oil in 1983.

Vehicle and other licences

This amount is made up as follows:

	1983	1982
	(in thousands)	
Province of Ontario		
Motor vehicle licences	$ 519	$ 540
Escalator and elevator licences	8	15
City of Toronto:		
Canopy and sign inspection fees	1	1
	$ 528	$ 556

Municipal taxes

This amount is made up of:

	1983	1982
	(in thousands)	
Realty and Business Taxes on Non-Exempt Property used for other purposes than as a subway or for rapid transit:		
City of Toronto	$ 2,395	$ 2,218
Borough of Etobicoke	274	249
Borough of Scarborough	401	124
City of North York	280	256
Borough of York	20	18
	$ 3,370	$ 2,865

Public liability costs

This amount consists of:

	1983	1982
	(in thousands)	
Claims paid in year	$ 3,854	$ 4,307
Less:		
Workers' Compensation payments	1,126	1,092
	2,728	3,215
Add:		
Increase in provision for public liability and Workers' Compensation	1,000	
Cost of excess liability insurance on all services	196	218
	$ 3,924	$ 3,433

Depreciation

This is made up as follows:

	1983	1982
	(in thousands)	
Total depreciation of tangible assets charged for the year	$ 7,717	$ 7,062
Less:		
Proceeds from sale of passenger and service vehicles, furniture and other equipment	113	54
	$ 7,604	$ 7,008

I comment further on the depreciation charge on page 26.

Debenture interest

	1983	1982
	(in thousands)	
Total interest, including interest on debentures payable in U.S. funds at par	$ 2,240	$ 2,328
Add:		
Foreign exchange and handling charges	105	118
Debenture discount amortized	40	41
	145	159
	2,385	2,487
Less:		
Actuarial Sinking Fund interest	298	277
Exchange on Sinking Fund Surplus	110	
Interest earned in excess of actuarial requirement	961	887
	1,369	1,164
	$ 1,016	$ 1,323

Operating Subsidy

The amount of $103,440,000 represents the operating loss for the year 1983 (1982 - $92,941,000) which was assumed by the Municipality of Metropolitan Toronto under the provisions of Section 107(2) of the Municipality of Metropolitan Toronto Act. The Provincial subsidy payable to the Municipality is approximately 13.7% of the eligible operating costs for the year. However, additional subsidies are receivable on new transit lines.

The net cost to the Municipality of Metropolitan Toronto for 1983 transit operations is detailed below:

	1983	1982
	(in thousands)	
Net operating cost of T.T.C.	$103,440	$92,941
Add:		
Metro special costs:		
Transportation of physically disabled	6,803	4,789
Reduced fares for elderly persons	8,796	8,407
Transportation of blind and war amputees	560	525
Exhibition place transit plan	87	82
Lease of commuter parking lots	335	218
Remuneration and expenses of Council appointees	64	63
Canada/Ontario Employment Development Program	142	
Gross expenditures before capital financing and Provincial subsidies	120,227	107,025
Provincial subsidies	62,189	56,832
	58,038	50,193
Capital expenditures:		
Debt Charges	10,530	10,704
Capital from current	14,631	7,156
	25,161	17,860
Net Cost to Metropolitan Corporation for the year	$ 83,199	$68,053

BALANCE SHEET

Cash - $2,007,000 (1982 - $1,151,000)

This amount does not include $728,000 of working funds as described on page 21.

Accounts Receivable
The Municipality of Metropolitan Toronto - $38,440,000 (1982 - $32,104,000)

This sum is made up of $16,892,000 being the balance of the 1983 operating deficit and $21,548,000 for capital and other subsidies.

Gray Coach Lines, Limited - Current Account $4,157,000 (1982 - $4,125,000)

This is the amount owing to the Commission by its subsidiary, Gray Coach Lines, Limited, for salaries, wages, maintenance of coaches, use of joint facilities, administration, etc.

The Commission charges interest at the prevailing bank interest rate paid on deposits to the Company on the monthly balance outstanding for a period of more than one month.

In the main, charges for services and facilities recovered from the Company are considered an abatement of the Commission's operating expenses. However, some charges, mainly those for costs of vehicles used, and capital cost of buildings and equipment, including interest, are recorded as revenue.

For 1983, the methods of calculating the amount to be charged to the Company as the cost of the services and facilities used by it were substantially the same as those used in 1982.

Other Receivables

This is made up of balances owing by:

	1983	1982
	(in thousands)	
Government of Canada	$ 11	$ 11
Province of Ontario	82	127
Other municipalities and their local boards	189	129
School boards	70	46
Advertising companies and rapid transit station concessionaires	279	574
Agents for distribution of tickets and tokens	66	78
Trade and other receivables	2,880	2,251
	3,577	3,216
Deduct:		
Allowance for doubtful accounts		
For trade accounts	37	24
For "claims" and "legal cases"	940	789
	977	813
	$2,600	$2,403

The allowance of $940,000 for claims and legal cases set out above is made up of $427,000 for estimated uncollectible claims cases unpaid at the date of the Commission's review of the year-end accounts, and $513,000 for the estimated uncollectible legal cases accounts. "Claims cases" represent payments on account of the Commission's liability as employer to, or on behalf of, injured employees, for which the Commission may have a claim on third parties. "Legal cases" represent payments into Court, or otherwise incurred in unsettled actions against the Commission, exclusive of legal department salaries and expenses.

Materials and Supplies, at Cost

Materials and supplies are valued at average cost and are categorized as follows:

	1983	1982
	(in thousands)	
General stores:		
Subway maintenance parts	$ 2,504	
Streetcar stores	1,319	$ 1,368
Garage stores	1,643	1,683
Subway car stores	2,791	2,899
Trolley coach parts	184	193
Automotive stores	295	298
Way Division	5,433	4,055
Electrical Division	720	715
Poles	10	10
Miscellaneous stores	1,624	3,082
Scrap and salvaged material	14	24
	16,537	14,327
Allowance for obsolete items	999	991
	15,538	13,336
Add:		
Items accounted for separately:		
Fuel and lubricating oil	230	202
Sundry related items	4	57
	$15,772	$13,595

Included in materials and supplies in 1983 is an amount of $2,504,000 which was previously shown as part of the capital cost of subway construction. Since the Commission felt that no major subway construction would be undertaken in the near future, it deemed it advisable that this material be transferred to operating inventories where it would be used for repairs and maintenance of the subway. The effect of this transfer was that capital subsidies previously received for this material had to be repaid to Metro and the financing of this inventory had to be effected from the Commission's own funds.

Certain spare parts, materials and supplies issued to various garages and service centres to enable them to maintain efficient operations are expensed when issued from the main stores. It is management's opinion that this accounting treatment is proper having regard to the nature of the Commission's operations. This material was valued for insurance purposes at December 31, 1983 at approximately $5,600,000.

Taken into consideration in the valuation of inventory is an allowance of $999,000 relating to anticipated obsolescence of items carried in stores as follows:

	1983	1982
	(in thousands)	
Automotive parts	$ 57	$ 64
Trolley coach parts	11	12
Subway car parts	471	497
Streetcar parts	278	264
Miscellaneous stores	49	46
Electrical - Plant Department	68	76
Way and structures	65	32
	$ 999	$ 991

Stores to be used by Gray Coach Lines, Limited, are carried as Commission stores and financed by the Commission until issued for use, at which time they are charged to the Company at inventory value plus the related share of handling and financing costs for the year.

Working Funds and Prepaid Expenses

This is made up as follows:

	1983	1982
	(in thousands)	
Working funds	$ 728	536
Prepaid expenses	1,347	2,197
Unamortized debenture discount	402	442
	$ 2,477	$ 3,175

Included in working funds are all cash advances to employees for use in Commission business, together with all petty cash funds and advances for maintaining ticket supplies available to the public. All these funds are maintained on the imprest system.

During the year, all Commission tickets and tokens which are sold by the Cashier's section to these employees are paid for in cash by them, using cash out of these advances. At the year-end, that portion of the advances represented by the tickets and tokens not yet sold to the public is deducted from the gross amount of the advances to show their net cash content, as follows:

	1983	1982
	(in thousands)	
Working funds advanced	$ 7,879	$ 8,909
Less:		
Tickets and tokens purchased but not sold to the public included therein	7,151	8,373
Balance representing actual cash in working funds at December 31, 1983	$ 728	$ 536

The prepaid expenses are made up as follows:

	1983	1982
	(in thousands)	
Prepaid insurance	$ 167	$ 156
Other deferred charges:		
Accrued vacation pay to be charged to Subway Construction cost when actually paid	302	261
Uniforms - conductors, motormen, guards, operators, etc.	495	588
Uniforms - inspectors, route supervisors	28	40
Commission expense for dental, medical and group life plans	38	421
Miscellaneous	317	731
	$ 1,347	$ 2,197
Unamortized Debenture Discount	$ 402	$ 442

Investment in Capital Stock of Gray Coach Lines, Limited, at Cost $1,000,000 (1982 - $1,000,000)

Gray Coach Lines, Limited, was incorporated in 1927 with a capital stock of $1,000,000. The former Commission invested $1,000,000 in Gray Coach Lines, Limited shares, mainly by way of equipment transferred at net book value. No further investment in the capital stock of the Company was made by the former Commission. The present Commission was vested with the issued shares, as at January 1, 1954, in accordance with Section 101(1) of the Municipality of Metropolitan Toronto Act.

Section 104 of the Municipality of Metropolitan Toronto Act precludes further investment in the capital stock of Gray Coach Lines, Limited by the Toronto Transit Commission or any other increase in its capitalization without the prior consent of the Metropolitan Council.

The par value of the capital stock of the Company vested in the Commission is $1,000,000, made up of 10,000 shares of $100 each. The equity represented by these shares at December 31, 1983 was $19,199,000 as set out in Note 4 to the financial statements. This amount does not include a $700,000 dividend payable in January 1984 to the Commission and received in that month. The dividend is recorded as income when received by the Commission.

Land, Buildings, Subways, Power Distribution System, Trackwork, Rolling Stock, Buses and Other Equipment, at Cost

This consists of the following assets:

	1983	1982
	(in thousands)	
Land	$ 12,414	$ 12,414
Trackwork	66,962	63,635
Paved areas	3,254	3,003
Signals and communications	49,265	46,106
Electrical power supply equipment	41,937	41,545
Exterior flood lighting	12	12
Subway tunnels and structures	498,263	492,359
Subway station equipment	15,447	15,141
Subway and yard fencing	142	175
Subway interest during construction on Bloor-Danforth-University right-of-way assets	1,193	1,193
Buildings and loop structures	62,025	39,230
Passenger vehicles, including spare part units capitalized	339,339	320,696
Roadway, garage, shop, office and other equipment, including fare boxes and service vehicles	25,931	22,694
	1,116,184	1,058,203
Construction and purchases in progress, other than for subways under construction	20,077	7,098
	$1,136,261	$1,065,301

The changes in these assets may be summarized as follows (in thousands):

Balance, January 1, 1983		$1,065,301
Add:		
Additions in 1983, at cost	$ 65,978	
Net increase in construction and purchases in progress	12,979	78,957
		1,144,258
Deduct:		
Retirements in 1983		7,997
		$1,136,261

The additions of $65,978,000 are made up as follows (in thousands):

Trackwork	$ 4,429
Paved areas	251
Signals and communication	3,159
Electrical power supply equipment	398
Subway tunnels and structures	5,904
Subway station equipment	306
Subway and yard fencing	(33)
Building and loop structures	22,795
Passenger vehicles, including spare parts units capitalized	25,450
Roadway, garage, shop, office and other equipment	3,319
	$65,978

The retirements of $7,997,000 are made up as follows (in thousands):

Trackwork	$ 1,102
Electric power supply equipment	6
Passenger vehicles, including spare parts units capitalized	6,807
Roadway, garage, shop and other equipment	82
	$ 7,997

Capital Contributions Received

The amount of $914,088,000 represents the Municipality's contributions towards the following projects, which the Metropolitan Corporation has made in accordance with Ontario Municipal Board Orders as revised from time to time.

	Contributions at December 31, 1982	Costs Transferred from Work in Progress During 1983	Contributions at December 31, 1983
		(in thousands)	
Yonge Street Subway	$ 34,072		$ 34,072
University Avenue Subway	30,779		30,779
Bloor-Danforth Subway	83,422		83,422
East-West Extensions of Bloor-Danforth Subway	51,700		51,700
North Yonge Subway, Eglinton to Sheppard	85,529		85,529
Sheppard to Finch	29,329	244	29,573
Spadina Subway	204,513	(136)	204,377
King Station, additional entrance on Yonge St. Subway	1,670		1,670
Surface assets	93,878	21,480	115,358
Bloor-Danforth, Kennedy, Kipling Extensions	85,554	412	85,966
Wilson Station parking lot	1,986		1,986
Insurance recovery	1,531		1,531
Light rail vehicles	64,974	(769)	64,205
Subway work cars project	524		524
Finch Station parking lot	763		763
Surface assets (capital works project)	4,042	289	4,331
Rapid transit construction (capital works project)	5,536	19,702	25,238
GCL contribution to cost of 10 buses	258		258
Subway cars	61,037	196	61,233
Dundas Station improvements	3,779		3,779
Queen's Park Station entrance	180		180
Wheel Trans assets		233	233
Malvern Garage project		15,851	15,851
Union Station mezzanine expansion		5,427	5,427
Yorkdale Station parking deck		6,103	6,103
	$845,056	$69,032	$914,088

Accumulated Depreciation

Changes in this account during the year are as follows:

	1983	1982
	(in thousands)	
Balance, January 1, 1983	$ 143,145	$ 143,619
Add (Deduct):		
Depreciation provided in 1983 as described on page 14	7,604	7,062
Depreciation on subway construction assets charged to subway construction in progress	92	(16)
	150,841	150,665
Less:		
Cost of depreciable assets retired in 1983	7,364	7,520
Balance, December 31, 1983	$ 143,477	$ 143,145

The accumulated depreciation represents provisions for depreciation of capital assets by the former Commission and by the present Commission since January 1, 1954.

Depreciation on capital assets is computed on the straight line method at rates based on the estimated average useful life of each asset group. It is calculated only on that portion of the total cost of capital assets borne by the Commission.

Capital assets under construction and not yet in service - $143,524,000 (1982 - $82,109,000)

This is made up of charges to work orders for construction and equipment, the cost of which has been borne by the Metropolitan Corporation in accordance with approvals contained in the Metropolitan Council Minutes and as subsequently approved by the Ontario Municipal Board.

Details of the expenditures are as follows:

	(in thousands)
Scarborough Rapid Transit Line	$114,263
Station modernization programme	16,895
Additional and replacement escalators	4,866
Wilson station alterations	3,998
Maintenance facilities consolidation	1,950
Other	1,552
Total	$143,524

Capital Contributions - $143,524,000 (1982 - $82,109,000)

This amount is made up of accumulated contributions from the Municipality of Metropolitan Toronto to December 31, 1983 of $143,524,000 for subway assets under construction.

In accordance with Section 223(2) of the Municipality of Metropolitan Toronto Act, the Metropolitan Corporation has the authority to expend monies for rapid transit extension.

In addition, under Section 107, the Metropolitan Corporation is empowered to contribute, with the approval of the Ontario Municipal Board, to other capital costs of the Commission.

By an amendment to the Public Transportation and Highway Improvement Act which received Royal Assent on July 23, 1971, the Province became responsible for granting a 50% subsidy from that date on a greatly expanded list of subway construction and land acquisition costs, with resulting lower costs to the municipality, provided the municipality was legally responsible for such costs. As the Metropolitan Corporation has cost-sharing agreements with the Commission, it became necessary for the Corporation from time to time to assume the legal responsibility for the Commission's share of the costs in order to qualify for the 50% subsidy from the Province.

By an amendment to the Public Transportation and Highway Improvement Act which received Royal Assent on June 22, 1973, the Province became responsible for granting a 75% subsidy from December 1, 1972 on certain transit related expenditures.

Accounts Payable and Accrued Liabilities

This amount is made up as follows:

	1983	1982
	(in thousands)	
Government of Canada	$ 8,916	$ 7,576
Province of Ontario	7,732	3,848
Metropolitan Corporation	703	262
Accrued Debenture Interest	383	396
Other municipalities	258	460
Sundry:		
Accrued salaries and wages	25,021	23,641
Holdbacks on contracts	321	160
Rental income unearned	230	214
Trade payables	18,292	12,890
	$ 61,856	$ 49,447

Provision for Tickets and Tokens held by the Public - $10,900,000 (1982 - $10,550,000)

The increase of $350,000 in this account reflects a general increase in the number and value of tokens and tickets held by the public at the year end and the value of January 1984 Metropasses sold in December 1983.

Provision for Public Liability and Workers' Compensation - $3,500,000 (1982 - $2,500,000)

This is a provision for costs for claims against the Commission for public liability, property damage and Workers' Compensation payments not recoverable from third parties. The increase in the year of $1,000,000 in the provision reflects the increase in pending claims greater than $10,000 from 79 in 1982 with an estimated settlement of $2,075,000 to 107 in 1983 with an estimated settlement of $3,260,000. The balance of the provision is for various small claims.

Capital Debt

This consists of:

	1983	1982
	(in thousands)	
Debentures maturing in annual instalments from 1984 to 1995	$ 19,044	$ 20,949
Less: Current portion	1,487	1,913
	17,557	19,036
Sinking fund debentures maturing between 1993 and 1997 (including $2,599,000 debentures payable in United States funds) less actual sinking fund balance of $15,468,000	4,664	6,022
Less: Current portion	324	324
	4,340	5,698
	$ 21,897	$ 24,734

Of the $15,468,000 Sinking Fund Balance, $2,599,000 is in U.S. dollars and is applicable to Sinking Fund debentures payable in the United States. The amount of $15,468,000 represents the actual sinking fund pertaining to these debentures maintained by the Sinking Fund Committee for the Municipality of Metropolitan Toronto. The actual sinking fund has been reflected in the financial statements of the Commission for 1983 to conform with the practice adopted in 1970 by the Municipality.

Before the due date for each debenture maturity or sinking fund deposit for which the Commission is held liable, it pays to the Metropolitan Treasurer in cash the total amount required to redeem the debentures or to provide the sinking fund deposit, thereby discharging its liability at that time in full. Liability for debentures due but not presented, if any, is carried on the books of the Issuing municipality only and not on the books of the Commission.

The related debenture debt is made up as follows:

Issuing Municipality	By-law No.	Year of Issue	Year of Final Maturity	Commission's Share: Amount of Issue	Commission's Share: Net Debenture Debt December 3 1983
				(in thousands)	
Metropolitan Toronto	108	1954	1984	$ 4,000	$ 183
	1764	1962	1992	10,000	1,979
	2015	1963	1993	10,000	5,185
	2357	1965	1995	20,000	11,697
			Total	44,000	19,044
* Sinking Fund Debentures:					
Metropolitan Toronto **	462	1956	1986	2,599	
	1915	1963	1993	2,105	203
	2611	1966	1996	5,109	1,291
	2685	1966	1996	3,581	944
	2874	1967	1997	3,085	973
	3054	1967	1997	3,653	1,253
			Total	20,132	4,664
Total, all debentures				$ 64,132	$ 23,708

* After deducting the actual sinking fund amount of $15,468,000 held by the Sinking Fund Committee for the Municipality of Metropolitan Toronto.

** Repayable in United States funds.

Equity Acquired from Toronto Transportation Commission on January 1, 1954 $24,804,000 (1982 - $24,804,000)

This is the net book value of assets assumed from the Toronto Transportation Commission by the Toronto Transit Commission.

Earnings Retained and Invested in the System by Toronto Transit Commission $20,381,000 (1982 - $20,381,000)

There was no change in retained earnings in 1983 since the operating deficit was subsidized by the Metropolitan Corporation. Operating deficits have been funded to date by grants or subsidies from the Metropolitan Corporation as follows (in thousands):

Grants	1956	$ 2,300	
	1963	2,500	$ 4,800
Assumption of deficits	1971	2,879	
	1972	6,173	
	1973	17,866	
	1974	34,205	
	1975	38,157	
	1976	35,560	
	1977	42,252	
	1978	50,424	
	1979	45,755	
	1980	53,156	
	1981	69,434	
	1982	92,941	
	1983	103,440	592,242
			$597,042

GENERAL COMMENTS

1. Section 111 of the Municipality of Metropolitan Toronto Act requires the Commission immediately after the close of each calendar year, to provide the Metropolitan Council with a copy of its financial statements and a general report of its operations during that calendar year.

2. Light Rail Vehicles

During the years 1978 to 1981, the Commission received 71 light rail vehicles from the Ontario Ministry of Transportation and Communication under a five year lease with an option to purchase the vehicles at the end of the lease period. The original lease stipulated that the option was to have been exercised in 1984, 1985 and 1986 by the payment of the following amounts:

1984	$ 2,400,000
1985	12,800,000
1986	18,400,000
TOTAL	$33,600,000

Due to Provincial subsidy limitation announced in 1984, these payments have been deferred at the request of Metro Council. These payments will now be made in 1988, 1989 and 1990. The amounts will remain the same. The purchase will be funded 100% by Metro, who in turn will receive a 75% subsidy from the Province.

In the intervening period an annual normal rent of $1 per car will be paid.

3. Subway Cars

In 1983, the Commission contracted with the Urban Transportation Development Corporation (U.T.D.C.) to purchase 126 subway cars for a total cost of approximately $185,800,000. The estimated cost will include spare parts, test equipment, in-house costs and escalation. The proposed delivery schedule for these cars is as follows:

1985	4 Cars
1986	90 Cars
1987	32 Cars
TOTAL	126 Cars

4. Bus Service Across Metropolitan Toronto Boundary

On various dates since 1971, the Commission has entered into agreements with the Towns of Vaughan and Markham, and with TATOA for the Town of Malton to provide bus service between Metropolitan Toronto and points located within these towns. The current agreements provide for monthly billing of the difference between cost and revenue to each town.

5. Insurance Coverage

I have reviewed the insurance coverage of the Commission and find it to be adequate.

METROPOLITAN AUDITOR

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

12th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 947-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 3, 1984

AUDITOR'S REPORT

**To the Chairman and Members of the
Toronto Transit Commission**

I have examined the balance sheet of the Toronto Transit Commission as at December 31, 1983 and the statements of revenue and expenses and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Toronto Transit Commission as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

TORONTO TRANSIT COMMISSION
BALANCE SHEET

ASSETS

	December 31 1983	December 31 1982
	(in thousands)	
Current assets:		
Cash	$ 2,007	$ 1,151
Accounts receivable:		
The Municipality of Metropolitan Toronto	38,440	32,104
Gray Coach Lines, Limited - current account	4,157	4,125
Other	2,600	2,403
Material and supplies, at cost	15,772	13,595
Working funds and prepaid expenses	2,477	3,175
	65,453	56,553
Investment in capital stock of Gray Coach Lines, Limited, at cost (note 4)	1,000	1,000
Capital assets (note 2):		
Land, buildings, subway, power distribution system, trackwork, rolling stock, buses and other equipment, at cost	1,136,261	1,065,301
Less: Capital contributions	914,088	845,056
	222,173	220,245
Less: Accumulated depreciation	143,477	143,145
	78,696	77,100
Under construction and not yet in service	143,524	82,109
Less: Capital contributions	143,524	82,109
Total capital assets	78,696	77,100
	$ 145,149	$ 134,653

(see accompanying notes)

TORONTO TRANSIT COMMISSION
BALANCE SHEET

LIABILITIES

	December 31 1983	1982
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	$ 61,856	$ 49,447
Current portion of capital debt (note 5)	1,811	2,237
	63,667	51,684
Provision for:		
Tickets and tokens held by the public	10,900	10,550
Public liability and workers' compensation	3,500	2,500
	14,400	13,050
Long term portion of capital debt (note 5):		
The Municipality of Metropolitan Toronto -		
For debentures maturing in annual instalments from 1984 to 1995	17,557	19,036
For sinking fund debentures maturing between 1993 and 1997, less sinking fund balance of $15,468,000 (1982 - $14,110,000)	4,340	5,698
	21,897	24,734

EQUITY

Equity acquired from Toronto Transportation Commission on January 1, 1954:		
Earnings retained and invested in improvement and expansion of the system by Toronto Transportation Commission	24,804	24,804
Earnings retained and invested in the system by Toronto Transit Commission (unchanged from prior year)	20,381	20,381
	45,185	45,185
	$ 145,149	$ 134,653

(see accompanying notes)

TORONTO TRANSIT COMMISSION

STATEMENT OF REVENUE AND EXPENSES

	Year ended December 31	
	1983	1982
	(in thousands)	
Revenue from operations:		
Passenger services	$ 248,803	$ 230,794
Rental of land, air rights, buildings, subway concessions and equipment	4,718	4,347
Rental of advertising space	3,681	3,689
Dividend from Gray Coach Lines, Limited (note 4)	700	600
Miscellaneous	1,447	1,468
Total	259,349	240,898
Operating subsidy (note 1)	103,440	92,941
Total revenue and operating subsidy	$ 362,789	$ 333,839
Expenses:		
Wages, salaries and other employee costs	$ 279,485	$ 254,724
Materials, services and supplies other than the items shown below	34,571	32,395
Electric traction power	14,034	13,656
Automotive fuel, including federal and provincial taxes	18,257	17,879
Vehicle and other licences	528	556
Municipal taxes	3,370	2,865
Public liability costs	3,924	3,433
Depreciation (note 3)	7,604	7,008
Debenture interest	1,016	1,323
Total expenses	$ 362,789	$ 333,839

(see accompanying notes)

TORONTO TRANSIT COMMISSION

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1983	1982
	(in thousands)	
Source of funds:		
Revenue from operations	$ 259,349	$ 240,898
Sales of capital assets	112	56
	259,461	240,954
Operating subsidy (note 1)	103,440	92,941
	362,901	333,895
Application of funds:		
Operating expenses	362,789	333,839
Deduct items not requiring current funds		
Depreciation	(7,604)	(7,008)
Increase in provisions	(1,350)	(75)
	353,835	326,756
Expenditures on capital assets (note 2)	140,280	87,917
Less: Capital contributions	130,968	77,991
	9,312	9,926
Decrease in long term portion of capital debt	2,837	3,156
	365,984	339,838
Decrease in working capital	(3,083)	(5,943)
Working capital at beginning of year	4,869	10,812
Working capital at end of year	$ 1,786	$ 4,869

(see accompanying notes)

TORONTO TRANSIT COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1983

1. **OPERATING SUBSIDY:**

By agreement with The Municipality of Metropolitan Toronto, the Commission establishes its fares each year at the level required to produce total budgeted revenue from operations equal to 68% of total operating expenses (as defined for provincial subsidy purposes). The Municipality undertakes in its budget to provide an operating subsidy equal to the remaining expenses.

The Province of Ontario, through its Transit Operating Assistance Programme, pays a subsidy to the Municipality, calculated on a formula which provides for:

i) a basic subsidy of 13.75% of transit operating expenses plus an additional 0.25% for each 1% that the actual revenue/cost ratio falls below 72.5%, up to a maximum subsidy rate of 15.47%, plus

ii) special subsidies on the initial operations of major new transit facilities.

Under these arrangements, if actual revenue and expenses for the year are equal to the budgeted figures, the operating subsidy is shared approximately equally by the Municipality and the Province.

In 1983, the actual funding of transit operating expenses (as defined for provincial subsidy purposes) for the year is expected to be as follows:

By the Commission	68.5%
By the Province of Ontario	16.4%
By the Municipality	15.1%

2. CAPITAL ASSETS AND CAPITAL CONTRIBUTIONS:

The Commission constructs or purchases its capital asset additions and receives capital contributions as described below. Capital assets are recorded at gross cost in the financial statements and the capital contributions received are recorded as a deduction from this cost. The Commission does not accrue for construction holdbacks on projects where the Municipality of Metropolitan Toronto has complete financial responsibility. These holdbacks are not included in the financial statements as they do not enter into the undernoted capital contributions calculation until actually paid by the Commission. At December 31, 1983, these holdbacks amounted to $2,377,000 (1982 - $2,673,000). Land purchased directly by the Municipality, mainly for rapid transit purposes, is not recorded on the Commission's books.

The current bases for capital contributions are as follows:

i) For additions and improvements to the subway and light rail systems and equipment and for certain other projects, the Municipality makes a capital contribution equal to the total cost and recovers 75% of this amount from the Province.

ii) For most of its other capital asset additions, including buses, the Commission receives from the Province a 75% capital contribution that is paid through the Municipality.

3. DEPRECIATION POLICY:

The provision for depreciation on capital assets is computed on the straight-line method at rates based on the estimated average useful life of each asset group. Depreciation is charged only on that portion of the total cost of capital assets borne by the Commission.

4. GRAY COACH LINES, LIMITED:

Gray Coach Lines, Limited, a wholly-owned subsidiary of the Toronto Transit Commission, operates inter-urban coach services and, through its subsidiary, Gray Coach Travel Inc., a travel business. Its consolidated financial statements are published separately. The accounts of Gray Coach Lines are not consolidated with those of the Toronto Transit Commission because consolidation is not felt to be the more informative presentation in the circumstances. The earnings of the Company, after payment of dividends to the Commission, are retained to maintain and improve the service and facilities for the benefit of the population it serves and are not likely to accrue to the Commission. In addition, the company's rates and routes are regulated by the Province of Ontario and a significant part of the Company's operations is carried out under an agreement with the Toronto Area Transit Operating Authority as part of the "Go Transit" commuter system.

The earnings of Gray Coach Lines, Limited are recorded in the accounts of the Commission only to the extent of dividends received which amount to $700,000 in January 1983 (January 1982 - $600,000). A dividend of $700,000 was received in January 1984. The results of Gray Coach Lines' operations are summarized as follows:

GRAY COACH LINES, LIMITED
(including Gray Coach Travel Inc.)

	Year ended December 31	
	1983	1982
	(in thousands)	
Revenue	$47,361	$44,542
Expenses, including Ontario income taxes	44,986	42,352
Net earnings for the year	$ 2,375	$ 2,190

The Company's balance sheet is summarized as follows:

	December 31	
	1983	1982
	(in thousands)	
ASSETS		
Current assets	$ 6,097	$ 6,666
Term investments held for replacement of terminals and public liability settlements	6,500	6,000
Capital assets, at cost less accumulated depreciation	14,756	13,022
	$27,353	$25,688
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities	$ 6,374	$ 6,473
Provisions, mainly for public liability and workers' compensation	1,780	1,691
Capital stock, reserve and retained earnings	19,199	17,524
	$27,353	$25,688

The Statement of Revenue and Expenses reflects charges of $6,285,000 in 1983 ($5,799,000 in 1982) made to Gray Coach Lines, Limited by the Commission for rental of property and equipment, use of joint facilities and administrative services.

5. CAPITAL DEBT:

Capital borrowings by the Commission are effected through the issue of Municipality of Metropolitan Toronto debentures. The Commission is required to provide the Municipality with funds to meet all principal and interest payments on such debentures. At December 31, 1983, the net capital debt of the Commission was as follows:

	1983	1982
	(In thousands)	
Instalment debentures -		
3 1/2% final instalment due 1983	$	$ 290
4% final instalment due 1983		201
3 1/2% final instalment due 1984	183	359
5 3/8% final instalment due 1992	1,979	2,147
5 1/2% final instalment due 1993	5,185	5,567
5 1/4% final instalment due 1995	11,697	12,385
	19,044	20,949
Less current portion	1,487	1,913
	17,557	19,036
Sinking fund debentures -		
5% due 1993	203	356
6% due 1996	2,235	2,934
6% due 1997	973	1,209
7% due 1997	1,253	1,523
	4,664	6,022
Less current portion	324	324
	4,340	5,698
	$21,897	$24,734

5. cont'd...

Instalment debenture maturities and scheduled sinking fund payments required in each of the next five years are approximately $1,811,000.

The sinking fund balance of $15,468,000 at December 31, 1983 consists of:

i) the annual levies paid by the Commission into The Municipality of Metropolitan Toronto sinking fund together with interest credited at the rate of 3% per annum, which is the rate to provide sufficient funds to retire the debentures at maturity, and

ii) the Commission's equity of $5,057,000 in the actual earnings of the sinking fund in excess of the 3% rate.

6. PENSIONS:

The Commission has a contributory pension plan covering substantially all employees including those assigned to Gray Coach Lines, Limited. The Commission and employees contribute equally to the Pension Fund Society. The rate of contributions for 1983 for each member and the Commission was 7.5% of wages and salaries less the amounts required to be contributed to the Canada Pension Plan. The contribution by the Commission covers both its share of current service costs and amounts required to liquidate the unfunded liabilities of the plan, which at January 1, 1983 amounted to approximately $111,000,000 over the periods prescribed by law. These unfunded liabilities result from improvements made to the plan in 1983 and prior years, based on the advice of the Society's independent actuaries.

7. COMPARATIVE BALANCES:

Certain 1982 figures have been restated to reflect format changes made to the financial statements in 1983.

POOR

QUALITY

ORIGINAL